

87<sup>th</sup> Legislative Session – 2012

Committee: Joint Appropriations

Monday, January 23, 2012

P - Present  
E - Excused  
A - Absent

Roll Call

P Wismer  
P Dennert  
P Sutton  
P White  
P Dryden  
P Bolin  
P Romkema  
P Deelstra  
P Peters  
P Novstrup (Al)  
P Heineman  
P Haverly  
P Juhnke  
P Putnam  
P Carson  
P Tidemann  
P Wink, Vice-Chair  
P Brown, Chair

OTHERS PRESENT: See Original Minutes

The meeting was called to order by Chairman Corey Brown.

**Department of Game, Fish & Parks**

Jeff Vonk, Secretary of the Department of Game, Fish & Parks (GF&P) met with the Joint Appropriations Committee to review the department's proposed FY13 budget request. Also in attendance were Tony Leif, Director of Wildlife Division, Doug Hofer, Director of Parks & Recreation and Chris Petersen, Director of Administration.

The department's proposed FY13 budget totals \$78,959,048, a reduction of \$3,084,286 or 3.8%. The budget includes \$4,339,315 in general funds, \$24,097,001 in federal funds and \$50,522,732 in other funds.

Secretary Vonk updated the Committee on various department programs.

The Outdoor Campus – West: This 60 acre campus was built on 14 years of success experienced at the Outdoor Campus-East in Sioux Falls. All classes offered at the campus are free and are flooded with participants. Secretary Vonk said the project was financed with license sale dollars, excise tax collected on outdoor equipment and \$1.2 million in private donations. No general funds were used for construction or operation of this facility.

License Sales: Secretary Vonk told the committee that flooding across the state caused a slow start in license sales and that between late spring and early summer sales were down between 10 and 15%. Despite the fact that the fishing was the best in years, people stayed away due to the flooding. Nonresident fishing licenses were down just under 1% and resident license sales increased by less than 1%.

Small Game Licenses: Licenses were down from 2010 which was anticipated as roadside pheasant counts were down 40%. Nonresident sales were declined by 4.9% to just under 97,000 and resident sales declined by 3.7% to just over 89,000. Nonresident licenses to hunt on shooting preserves increased by almost 4% to just over 10,000.

Big Game Licenses: Approximately 174,000 licenses were sold which equals nearly 250,000 tags.

In response to Representative Wink's question, Secretary Vonk said 8% of the big game tags are allocated for non-residents. Landowners are given preference on the first half of the quota. Secretary Vonk will provide the Committee with information on the exact number and percentages. Senator Tidemann asked if there was a minimum of acreage necessary to get big game preference. Secretary Vonk said yes, under current law it is 160 acres for deer and 320 acres for elk.

Senator Juhnke asked if any deer tags had been returned due to the disease in western South Dakota. Secretary Vonk said the disease incidents were higher this year; however, he was unaware that anyone returned their license. In response to Senator Sutton, Secretary Vonk said the blue-tongue disease is a result of a life-cycle midge that carries the disease; some years the conditions make the disease more susceptible. Secretary Vonk will provide additional information on this issue.

Online License Sales: Secretary Vonk said 88% of all big game applications, 35% of small game licenses and 35% of fishing licenses are handled on-line.

Parks Visitation and Revenue: Camping was down by 9% due to flooding and park closures. After a record number of visitations in 2010, flooding, associated park closures and an inclement spring resulted in a 9% decline with 7.2 million visitors. Revenue was down 2% over the 2010 record year. The department had anticipated an 8% increase as a result of fee increases (i.e. \$2 camping fee increase).

Enhancing Outdoor Opportunities: Approximately 1.3 million acres have been enrolled in the Walk-In-Area Program at a cost of \$2.2 million. The department also used \$618,000 in USDA grant funds for signing bonuses on multiyear contracts for CRP and WRP land with an emphasize on eastern South Dakota. In addition, 43,000 acres in northeast South Dakota were enrolled, primarily for waterfowl hunting. Secretary Vonk said this program was an opportunity for the involved landowners due to the high water in the area. Secretary Vonk reported 55,000 acres in 20 counties in the James River Watershed were enrolled in the Conservation Reserve Enhancement Program. In response to Representative White's question, Secretary Vonk said a standard lease is 10-years; however, there are options for an extra 5 years. Secretary Vonk said the program started 3 years ago and they are over half-way to their goal of 100,000 acres. Senator Heineman asked for a map that would show public access land. Senator Sutton asked what the landowner receives for participating in the program. Secretary Vonk said the rate is generally \$1/acre. Rates vary depending on the quality of the habitat; some may go as high as \$10/acre if conditions are right. The largest acreages are located west river. Secretary Vonk will provide the Committee with a breakdown of this information.

The department provided handicapped accessible piers, parking and trails at the Rollings GPA fishing access project in Lincoln County. Ice fishing access was provided at 57 lakes and work on improved boat ramps and docks were done at numerous lakes. The department partnered with USFS to repair Richland and Sheriff Dams and work continues on Rosehill Dam south of Miller. Construction at Rosehill is set to begin in 2012 with 75% of the costs paid by FEMA. In response to Senator Putnam's question, Mr. Petersen said FEMA funding is available now and is paid out when the bills are submitted.

Fifty-nine new camp sites were added at Hartford Beach, 41 at Lewis and Clark, 28 at Lake Vermillion along with 2 cabins, a dump station and expanded boat ramp parking. The Game Lodge Pavilion at Custer State Park was completed.

Flooding in the State Parks: Secretary Vonk told the Committee that flooding affected 42 state park units, with 37 being along the Missouri River. The damage estimate is approximately \$9 million and FEMA recently notified the state that none of the facilities along the river are eligible for FEMA cost share.

Secretary Vonk told the Committee Fisher Grove State Park was closed because the bridge that allows access to the park was in disrepair. The cost to replace the bridge is very high and it is

doubtful that the department would invest the \$800,000 necessary to replace the bridge for access to 20-25 camping facilities. The department has considered moving the campsites and facilities.

Mountain Pine Beetles: Secretary Vonk said the department continues to fight the beetle, especially in the Sylvan Lake area. A comprehensive inventory was done in the past year and results show 3 times the increase in damage. An appropriation will be necessary in order to fund the plan to stop the infestation. Secretary Vonk said the department is on a tight time-frame and is working aggressively. Approximately 142,000 infected trees need to be harvested.

In response to Representative Wink's question, Secretary Vonk said the cutting and chunking technique works; the department believes they can get ahead of the problem if they are able to cut and remove the 142,000 infected trees; however, the number of infested trees was a surprise to the department. Long-term there will likely be more work to do. Secretary Vonk said the hiking trails were closed for safety reasons and the plan is to work through an area and then open the area back up. In response to Senator Haverly's question, Secretary Vonk said the beetles have a limited flight range, generally 300 feet. Approximately 80% of the beetles die in the chunking process, which is the most economical method. The size of the problem is bigger than the resources available to handle it. Secretary Vonk said there is limited commercial value to the chunks; there is the risk of spreading the beetle to other areas.

Blood Run Acquisition: The \$1.6 million in private funding was secured, with the final purchase agreement was executed in December 2011. The property is currently being held by the Parks and Wildlife Foundation and the Conservation Fund. Forest Legacy funding will secure final funding for the Nelson purchase. Secretary Vonk said work on this project will hopefully continue to be a joint effort between South Dakota and Iowa. In addition, the department has had strong support from the tribes.

Senator Brown asked how the Blood Run project would be affected by reprioritization of funds for flood repair work. Secretary Vonk said most of the capital development funds would go to flood repair for this year and into FY14. And because the department does not own the Blood Run property yet, that would not be an issue. Representative Wink asked what the original appraisal had been on the Blood Run project. Secretary Vonk said the 308 acres of Nelson property was originally appraised at \$5 million; however final discussions on the project required a new appraisal which came in at \$3.5 million and that ended up being the final sale price.

Representative Carson asked if the department would be using capital improvement funds for the acquisition of property in the future. Secretary Vonk said the department has a moratorium on land acquisition for two years; consequently they did not buy any property in the last year and have no plans for the next year.

Secretary Vonk told the Committee that GF&P essentially uses all of the FTE allocated to them. The department manages their FTE fairly close, without exceeding the allocation, considering they generally have 1,000 seasonal employees.

Secretary Vonk presented the FY13 budget highlights:

- Division of Parks & Recreation - Operations: A net general fund decrease of \$99,293 is recommended to reflect 1) a decline in the Custer State Park bond payment of (\$177,650) and 2) implement the general fund portion of the recommended for increase for salary policy and health insurance, \$78,357. Federal and Other fund expenditure authority adjustments include:
  - 1) An increase of \$28,740 in federal funds and \$95,950 in other funds, to reflect the recommended salary policy and health insurance changes.
  - 2) A decrease of (\$85,332) in expenditure authority to reflect efficiencies in the Maintenance & Operations budget of the statewide parks system.
- Division of Parks & Recreation – Capital Development: This budget receives no general funds. Recommended changes include a decrease of \$4,668,775 in federal expenditure authority and an increase of \$980,275 in other fund expenditure authority. The decrease in federal fund expenditure authority corresponds to the one-time acquisition of properties within the Blood Run national historic landmark. This purchase is budgeted in FY2012. The increase in other fund expenditure authority includes \$2.13 million of flood damage repair costs that were anticipated to be covered by reimbursements from FEMA.
- Snowmobile Trails Program: An increase of \$148,900 is recommended for the purchase of a replacement snowmobile trail groomer.
- Division of Wildlife - Capital Development: A net reduction of \$1,074,200 is recommended to bring the total budget down to \$4.3 million. A summarized list of capital development projects can be found on page 12 of the LRC Budget Briefing for the Department of Game, Fish & Parks.
- Division of Wildlife – Operations: An increase of \$960,000 in expenditure authority is recommended for landowner incentive payments associated with the Conservation Reserve Enhancement Program located along the James River valley. An additional \$624,412 in expenditure authority (federal and other funds) is recommended for salary policy and health insurance adjustments.
- Department Administration: A reduction of \$244,304 in general funds is recommended to reflect final payment on bonds issued for the Sioux Falls Outdoor Campus. An additional

\$85,230 (\$5,630 in general funds and \$79,600 in other fund expenditure authority) is recommended for salary policy and health insurance adjustments.

#### Division of Wildlife

Tony Leif, Director of the Wildlife Division reminded the Committee the Wildlife Division is funded through federal funds and revenue from hunting and fishing licenses. The operating budget totals \$41,505,749. That budget is divided between four major areas. Wildlife Management involves \$8,557,647 or 21%. Of that amount, \$3 million is allocated for damage abatement programs. In addition, \$1.7 million is allocated for game animal damage and of that amount; \$300,000 is for payments to landowners for projects that alleviate game damage. Mr. Leif said no payments are made for actual damages. In response to Senator Sutton, Mr. Leif said in tough winters hay or grain is placed in areas where animals come to feed. In addition, stack yards are built to protect stored feeds and the department has temporary stored feed programs. Canadian geese also cause a great deal of crop damage. Electric fencing is installed and buffers planted between wetlands and crops. In rare cases lethal control has been used to disrupt the reproduction activity. Mr. Leif said the number of complaints on this type of damage has increased primarily due to commodity prices. Senator Juhnke asked for the condition of this fund. Mr. Leif said approximately \$2.4 million is collected from the \$5 surcharge and is supplemented with resources from selling special buck licenses. Fifty percent of the funds go to depredation programs and 50% goes to access programs. During periods of bad winters the department has had to supplement the fund when expenditures often exceeded resources. Mr. Leif said when it is necessary to supplement the funds; it is done with game fund (license) dollars, and any excess goes to the game fund where it is tracked to ensure the funds are spent in the designated area.

Representative Romkema asked for comments on the mountain lion season in the Black Hills. Mr. Leif said the population is estimated at 200 and it is the management objective of the department to reduce that number by 25%. The Game, Fish & Parks Commission has adopted a season structure to move in that direction. Senator Haverly commented on the sightings away from the hills. Mr. Leif said generally those found away from the hills are usually young males looking for food and a mate and more go west than east. Mr. Leif said the department does consider mortality numbers when determining the appropriate harvest level. Representative Bolin asked about wolves in South Dakota. Mr. Leif said the wolves come from Wyoming or Montana; however, the department is not aware of any breeding packs. In response to Senator Sutton's question, Mr. Leif said legislation was passed that allows landowners to protect themselves from mountain lions.

Mr. Leif told the Committee that \$1.1 million goes to animal damage control program. Another \$1.3 million is for conducting game management surveys and for research done internally. The department also contracts with SDSU and others to help the department be better wildlife managers with \$1.5 million going toward this cooperative research activity.

The Habitat and Access budget totals \$15,384,987. Approximately \$5 million goes for public and private land management programs, the bulk of which is 300,000 acres in game production. The programs to enhance habitat expend \$7.2 million in direct payments to landowners for habitat and access development. This includes \$3.2 million for CREP, \$2.5 million for walk-in programs, and \$1.5 for habitat development (shelter belts, etc.).

Representative White asked about people traveling on water onto private property. Mr. Leif said the department finds this to be a difficult issue because water is public. Those individuals, who access the water legally, are not trespassing.

Representative Wismer asked the approximate range of what can be added to the CREP payment for enrolling in the program. Mr. Leif said the payment is in the \$30/acre range.

The Fisheries portion of the budget is \$7,357,585. Approximately \$3.8 million goes to management research, and \$2.8 million for production and development, including \$1.5 million for the state fish hatcheries. Representative Wink asked what types of fish are being raised in the state hatcheries. Mr. Leif said the Black Hills hatcheries are cold water hatcheries with trout and salmon. All of the salmon in Lake Oahe come from the Black Hills hatcheries. The Blue Dog hatchery in eastern South Dakota is a cool and warm water hatchery with walleye, pan fish and musky.

The Public Service budget totals \$10,205,530 with just under \$5 million going to Conservation Law Enforcement officers. Mr. Leif said the department works hard to get to full staffing; however, the hiring process is quite involved. GF&P has difficulty retaining officers, primarily because of the salary. There are currently 60 Conservation Law Enforcement Officers in the state with 8-10 vacancies. Candidates attend 12 weeks of law enforcement training in Pierre and then participate in extensive field training. Representative Wismer requested a list of open positions and how long the position had been vacant. Mr. Leif said \$3 million is budgeted for Outreach and Education.

In response to Representative Dennert's question, Mr. Leif said the department did adjust its policy on how Conservation Officers check hunting licenses on private land. However, the officers still go on private land to check; but are as non-obtrusive as possible. The department is still reviewing this issue and will collect information from the CO's on how the season goes, after which a report will be provided to the Governor.

Representative Wink asked about predator control for sheep operations. Mr. Leif agreed that the coyote population is on the rise. The original funding for this activity came from the US Department of Agriculture; however, 3 years ago that funding was redirected toward actual activities with USDA's emphasis being aerial control and the state emphasis being ground control. About a year ago, due to funding restrictions, the USDA pulled out all support and aerial control. Then recently the department worked with USDA staff and they were able to find

additional funding to reestablish this activity. There is now an airplane in South Dakota that operates primarily in western South Dakota for coyote control. The plane and employees are owned and employed by the federal government (USDA).

The Capitol Development budget totals \$4,281,800 with \$3,076,800 budgeted for aquatic habitat and access. Also included is \$515,000 for more in-depth development on game production areas, \$225,000 for hatchery improvements and \$465,000 for facility improvements. Representative Bolin asked how many dams the department was responsible for or have control over. Mr. Leif said there are 180 small dams throughout the state and GF&P does repair work on those that provide public access for fishing. The \$500,000 budgeted amount is for general maintenance and miscellaneous repair. In addition, because there is always emergency repair work, \$400,000 is budgeted for emergency repairs. Secretary Vonk added that the dam analysis is done in conjunction with the Department of Environment & Natural Resources, School & Public Lands and the State Engineer's Office.

Representative Dennert asked the department to provide information on how many 3-day licenses were sold and requested a report on the buffalo sale in Custer State Park.

#### Division of Parks & Recreation

Director Doug Hofer reviewed the budget for the division's three programs. Revenue in the Parks & Recreation Program in calendar year 2011 was \$1 million short. Mr. Hofer said revenue was down 2% over last year, while the department had projected an 8% increase due to fee changes. Mr. Hofer reminded the Committee that 42 of the 130 state park units were impacted by the flooding and bad publicity impacted areas that were not involved in the flooding. At one time 60 boat ramps and 550 camp sites were closed. No fee increases are proposed this year and the fee structure will remain the same in 2012.

Mr. Hofer explained the reduction of \$117,632 in other funds was a result of restructuring in the Parks Division, going from 6 to 4 regions. As a result of this restructuring, the department eliminated the manager/supervisor positions at Newton Hills and the Lead Regional Office. Mr. Hofer told the Committee the eliminated positions will not affect services.

Mr. Hofer said \$320,000 for pine mountain beetle work is included in operating base budget.

The Parks & Recreation Capital Development/Improvement program will fund the flood repair work. The current estimate for flood damage is \$9 million and the department is already working on recovery and renovation work. Mr. Hofer said a number of FY12 projects have been deferred (\$1.6 million) to help pay for this work. The department anticipates all parks will be open, but not completely repaired, by Memorial Day. The repair/renovation plan has been evolving and when the budget was first presented to the Governor, the water was still visible at many of the locations. Mr. Hofer said learning that FEMA would not be participating in repair costs will require an amendment to the base budget.



The department's focus in FY13 will be to restore the damages that were done using as much other and federal funds as possible. Mr. Hofer said historically FEMA funds have been considered "other" funds. The Governor's recommended budget included \$5,199,325 in other funds. By removing \$2 million in FEMA funds, other funds are reduced to \$3,199,325. This will in turn reduce the total operating expenses from \$8,644,200 to \$6,644,200. Mr. Hofer said the \$1.6 million from FY12, the \$3 million in FY13 dedicated to fund flood restoration, and the \$2 million one-time funding from the Governor's special appropriations bill totals \$6.6 million, leaving a \$2.4 million shortfall. The remaining projects will be the lowest priority projects. Some will be deferred to FY14 and the department will seek additional funding in FY14. This list of deferred projects includes Fisher Grove (\$800,000). Senator Juhnke asked Mr. Hofer to keep the Committee informed on the Fisher Grove repair project. Mr. Hofer agreed to provide a map showing alternative sights for the camping sites. In response to Representative Wismer, Mr. Hofer said the \$1 million shortfall will be made up by a smaller fund balance and by cutting back on other fund spending in the development budget. The only real shortfall is the \$2.4 million flood repair work.

Mr. Hofer said a new \$800,000 waste water management system is needed in Custer State Park in the vicinity of the Black Hills Playhouse. The department received a \$500,000 grant that was dedicated toward the project at Center Lake; however the department has not been able to move forward with the project and nearing the end of the expenditure authority. The department is proposing to switch the funding from the waste water management project to flood repairs.

In response to an earlier question regarding reprioritization of projects, Mr. Hofer spoke to the Trail Development project at Blood Run Nature Area. This project is based on the belief that the department can get a Recreational Trails Program grant this provides 80% of the match. Mr. Hofer said a majority of this would be federal authority and part of the existing federal Highway Bill. Mr. Hofer said the urgency is that one more year of funding is available under this Recreational Trails Program. Once a new bill is passed, this program may no longer be in existence. Operating costs for this trail would be very low.

The Snowmobile Trail Program is self supporting through snow mobile licenses, gas tax and excise tax collected from purchases. The department operates an intense 24/7 grooming program in the Black Hills. GF&P has 17 groomers statewide of which 11 are in eastern South Dakota and 6 in the Black Hills. This program has an increase of \$148,900 in other funds to purchase an additional trail groomer.

In response to Senator Tidemann's question, Mr. Hofer said motor boat fuel averages \$1.5 million/year. The annual revenue from snowmobile license fees, gas tax and the 3% excise tax is about \$1 million/year. The budget shows more than a million dollars because this is a revolving fund and is based on an ideal snow year.

Senator Juhnke commented on the road repair issues at Cedar Shore resort. Mr. Hofer said the original lease was between the Corp of Engineers and Lyman County. The property was later transferred to the state of South Dakota in 2002 and owned by Game, Fish & Parks. The department subsequently leases the property to Lyman County who in turn leases it to Cedar Shore. As a result of the flooding the road and trail built by Lyman County was undermined due to erosion and there is now concern it may erode away. If the embankment is lost the road will be lost. Mr. Hofer said the fixes are bigger than the state of South Dakota. It has been suggested that the Congressional delegation get involved due to the damage being caused by the way the water is being managed.

### **Bureau of Personnel**

**Ms. Sandy Zinter**, Commissioner of the Bureau of Personnel (BOP), distributed a PowerPoint presentation about the agency's FY2013 budget request (**Document #7**).

For FY2013, the Governor recommends a total budget of \$16,415,686; comprised of \$882,319 in general funds, \$500,671 in federal fund expenditure authority, and \$15,032,696 in other fund expenditure authority; and 69.5 FTEs. This request is a total increase of \$1,463,429 (9.8%) – made up of an increase of \$10,532 (1.2%) general funds, increase of \$671 (0.1%) federal funds, and an increase of \$1,452,226 (10.7%) in other fund expenditure authority – from the FY2012 budget.

### **South Dakota Risk Pool**

The South Dakota Risk Pool has been in operation since July 28, 2003. The Risk Pool provides coverage to individuals who have lost their creditable coverage through no fault of their own, cannot obtain health insurance on their own, and make application to the Risk Pool within sixty-three days of losing coverage.

There were 662 members in the Risk Pool at the end of FY2011. On June 30, 2011, the member population of the Risk Pool consisted of 325 males and 337 females. Approximately 68% of the enrollees are over the age of 50.

Commissioner Zinter stated that the BOP is asking for an increase of \$1,300,000 in other funds for the FY2013 budget to bring the South Dakota Risk Pool budget in line with anticipated claims for the upcoming year.

Commissioner Zinter noted that the flu vaccines were removed from the FY2012 budget. However, the BOP was later informed that the flu vaccines are items that are required to be continued under the Health Care Reform Act. To remove the flu vaccination would result in the plan losing its grandfather status and therefore the plan would need to increase additional

preventative services. The \$184,000 was moved out of the BOP budget and into the cost of the plan for FY2012.

### **FY2013 Salary Policy**

**Mr. Kevin Forsche**, Director of Compensation and Agency Support with the BOP, stated that the majority state employees (3/4) reside in three regions of the state – Black Hills area (14%), Pierre (20%), and the I-29 Corridor (40%). This creates a challenge in recruiting people to work in rural areas.

Currently, the average state employee is 44.5 years old and has 12.1 years of service. Mr. Forsche noted that the workforce is maturing with 39.9% of the workforce being age 50 or older. As of June 30, 2011, 10.1% of the workforce became eligible to retire, 25% will be eligible to retire within five years, and 35.5% will be eligible to retire within the next ten years. This creates a potential serious loss of talent and efficiencies.

Statewide employment turnover peaked in FY2007 at a rate of 13.5%. With the recession, turnover decreased in FY2008, FY2009, and FY2010. As the economy recovers, the turnover rate is increasing and reached 12.2% in FY2011. In FY2011, 52% of the turnover was in labor and support positions (HM workers clerical staff, correctional officers, custodial workers, etc.), and 41% was for professional positions (accountants, engineers, nurses, etc).

Mr. Forsche said that over half college graduates hired with the state leave in the first three years of employment. Some of the reasons employees leave is for an advancement or promotional opportunity and more competitive pay in the private sector.

In response to **Representative Jim Bolin's** question, Mr. Forsche stated that with retirement and turnover in the next five to ten years, there is concern about retaining employees that can move into higher positions with the state. The state is struggling to retain employees and the proposed salary package will be a good start to turn that around.

Senator Jeffrey Haverly asked about a salary comparison with other states. Ms. Tony Richardson, Human Resource Manager and Compensation Analyst with the BOP, stated that the BOP compares salaries to the six surrounding states, public government (city and county), and the private sector

For FY2013, the Governor is recommending a Performance and Compensation Equity (PACE) increase. This is comprised of three parts:

- Across-the-board adjustment – annual salary increase to all employees used to address the competitiveness of the system;
- Movement to job worth adjustment – up to 2.5% salary increase for employees to bring them to job worth within seven years; and

- Longevity pay – lump sum payment to employees with more than seven years experience.

Senator Larry Tidemann presided as chair.

In FY2008, 24.5% of state employees received a salary higher than job worth due to performance, added duties, and special market; 31.5% of state employees received a salary equal to job worth; and 43.9% of employees were below job worth. Today, state employees' salaries are 20.7%, 25.6%, and 53.7% respectively. The reason for the change is the state not having funds for a salary policy increase for three consecutive years.

Slide 14 of Document #1 illustrates the process of movement to job worth. Mr. Forsche commented that it takes an average of seven years for an employee to reach job worth due to training in the position.

Longevity pay is an annual lump sum payment to employees with more than seven years of experience. This payment is an expression of appreciation for years of service. Mr. Forsche said that the longevity payment continued during the last three years when the state did not offer a salary increase.

Senator Tidemann asked about a remedy to the increasing number of employees that are below midpoint. In response, Commissioner Zinter stated that the main solution is to start using the movement to job worth adjustment again. Otherwise, if more funds are available, then those funds can be added to the job worth movement.

Ms. Richardson stated that the zero salary policy for the past three fiscal years and increased the difficulty to fill vacant positions in critical occupations – nurses, engineers, scientists, IT specialist, and accountants/auditors. The demand for these positions exists in both the public and private sector and will only increase. Therefore the state has to hire a person at higher than the minimum to fill the positions.

The career banding and compensation project is designed to adapt to changes and find advancement opportunities. It is comprised of three areas:

- Compensation Structure – a new compensation structure provides needed flexibilities to respond quickly to changing market conditions;
- Classification Structure – a new classification structure clearly defines career advancement opportunities; and
- Performance Management System – a new performance management system engages employees and managers, promotes career development, and ensures accountability.

Currently, the State of South Dakota is significantly behind the market in pay compared to other states and the private sector. More applicants are declining interviews or decline the position after a job offer. There also is a large potential loss of organizational knowledge due to

retirement eligibility. Therefore, one of the goals for the Career Banding Project is to increase the salary for the identified critical occupations to become more successful in recruiting and retaining against the market.

In response to **Senator Al Novstrup's** question, Ms. Richardson stated that the BOP knows the state is behind the market by a comparison of salaries to the South Dakota Department of Labor statistics and other surveys.

Commissioner Zinter stated the Governor's FY2013 recommendation is for a 3% across-the-board increase and a 2.5% movement to job worth adjustment. The PACE adjustment to job worth totals \$7,450,586; comprised of \$2,652,611 in general funds, \$1,886,005 in federal funds, and \$2,911,970 in other funds. The Governor's recommended 3% across-the-board increase is comprised of \$8,534,864 in general funds, \$5,113,027 in federal funds, and \$9,846,313 in other funds for a total of \$23,494,204. A breakout per branch of government is shown on slide 21 of Document #7. The Governor is also recommending up to a maximum of 7% adjustment to employees in the Career Banding families to move them towards market.

**Senator Billie Sutton** asked about the state employee's reaction to the recommended salary increase. Commissioner Zinter stated that state employees have worked and accomplished an increased workload with fewer employees for the past three years without a salary policy increase. Most employees are happy to see a recommended pay increase.

**Representative H. Paul Dennert** inquired about the maximum pay increase for people in career banding positions. Commissioner Zinter stated that those positions are only subject to the 3% across-the-board increase and the 7% adjustment for career banding positions. These positions do not receive the 2.5% PACE adjustment to job worth.

Representative Jim White and Senator Tidemann requested the BOP provide the amount for the total benefit package per employee and a comparison of the benefits to other states.

#### **Recommended One-time Bonus**

**Mr. Jason Dilges**, Commissioner of the Bureau of Finance and Management (BFM), stated that the Governor is recommending a 5% one-time payment for FY2012 to all state employees not on probation as of March 23, 2012. This bonus will not be added to the employee's base salary. Because not all employees are paid with general funds, the Governor is recommending to apply the same methodology used for the salary increase to the bonus.

The state has onetime money available to fund the bonuses. Commissioner Dilges noted that the bonus received is less what an employee would have accumulatively received if a 3% salary policy increase was implemented for the last three years. He stated that the current plan is for the bonus to be paid on March 30; which will correlate with the Board of Regents (BOR) payments.

The BFM is working with agencies that are funded with other funds. Since the bonus is not a base expenditure, the expense can be amortized over a couple years. Incorporated in the condition statements requested, is a onetime payment for FY2012 and the 3% base pay adjustment, the 2.5% to job worth, and up to 7% career banding increase for FY2013.

To calculate the amount of funding needed to fund the bonuses, BFM looked over several years of payroll runs to determine the average state employee payout. It was determined that the November 30 payroll is similar to March 30. Information for the BOR was aggregated and six different proposals were created. BFM selected the third highest BOR proposals. Commissioner Dilges stated that if the calculations are off, the state will only spend the amount appropriated and the remained will be reverted back.

Representative Dennert asked if the amount should be increased so it will not have to be prorated. Commissioner Dilges responded that the figures received from the BOR were lower than what was included in the Governor's budget. After reviewing those figures and the data from central pay, he believes with 80% certainty that the state will not need to prorate.

In response to Representative Dennert's question, Commissioner Dilges stated that he will provide a breakout of general funds, federal funds, and other funds by department for the bonus.

Representative Fred Romkema asked about the bonus being paid by grants. Commissioner Dilges said that there are only about 12 instances where agencies have federal grants that are capped. The BFM is working with those agencies and if there are not available funds in the grant to cover the bonus, the state will use general funds. State employees should not be penalized because there are paid by other funds or federal funds.

Senator Putnam asked about the March deadlines. Commissioner Dilges stated that all permanent employees hired on or before September 24, 2011; not including the Governor, Lieutenant Governor, Attorney General, Secretary of State, State Auditor, State Treasurer, Commissioner of School and Public Lands, and Public Utilities Commissioners, will receive a bonus payment on March 30, 2012. If an employee is permanent and half-time, the employee will receive half the bonus; which will not be included in the base.

Commissioner Dilges explained that the bonus will be funded by pooling the money and distributing the funds to the agencies according to agencies budget authority. This allow for flexibility to not prorate if give general pool and not directly to individual departments. He noted that the state could have funded the bonus entirely with general funds, but that would have reduced the amount available by two-thirds. By using other funds and federal funds, the state is able to leverage funds.

The BOP response to questions in the Budget Call letter was distributed. (**Document #8**)

MOTION:     ADJOURN

Moved by:     Haverly

Second by:    White

Action:        Prevailed by voice vote.

Barb Bjorneberg and Lisa Shafer  
Committee Secretary

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Corey Brown, Chair